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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Corporate Profits Thrive . . .

For most U.S. industries, a welcome development arising from the robust pace of business activity is the strong surge in corporate profits. This was made possible by the lowering of break-even points due to the modernization of production facilities, closings of inefficient plants and a tight rein on operating costs—especially wages and salaries. But that's not all. The ongoing surge in profits also results from a sharp rebound in sales, thus enabling U.S. companies to post one of the steepest earnings gains in the postwar era. Pre-tax profits are believed to have risen nearly 60 percent so far in this recovery, with the second quarter's jump around 20 percent, year-over-year.

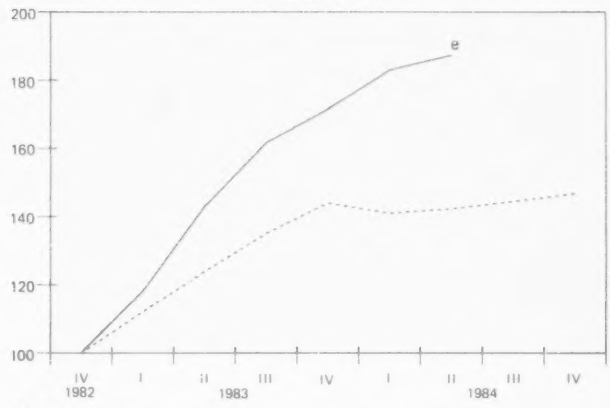
Looking beneath the surface, the picture is even better than the top-line profit numbers suggest. For one thing, during periods of rapid inflation, much of the earnings of many firms include swollen "illusory" inventory profits, reflecting the rising value of stocks on hand. In fact, in early 1980, when inflation rates spiked upward, inventory profits alone represented as much as 22½ percent of pre-tax profits reported by corporate America. But because of the current low rate of price increases, these inflation-driven inventory profits have diminished and, in the past six quarters, have comprised the smallest proportion of corporate pre-tax profits in nearly 15 years. For another, the implementation of the Accelerated Cost Recovery System now allows for generous depreciation over a shortened period of time. This results in large depreciation charges being subtracted from earnings, artificially depressing the top-line profit numbers.

Operating profits—believed to be a more reliable gauge of profitability since they exclude phantom inventory profits and are not distorted by over- or under-depreciation charges—are estimated to be up nearly 90 percent from the depths of the last recession. This is more than double the average gain recorded during the same period in earlier postwar recoveries (see chart).

. . . Aided By Stronger Sales . . .

This profit performance is particularly impressive when you consider that it has occurred in a comparatively low inflation environment. Companies have not been able to beef up profit margins by raising prices as they did in past expansions because of consumer reluctance and foreign competition. Thus, businessmen have been forced to emphasize cost containment and depend on rising sales volumes.

CORPORATE PRE TAX OPERATING PROFITS
CURRENT RECOVERY (LINE), AVG. OF 6 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



(e) estimate

Stepping up efficiency in the workplace is essential if America's business is to continue to keep costs down and compete successfully with overseas rivals. It is therefore particularly good news that nonfarm productivity—the volume of goods and services generated by all persons engaged in the nonfarm sector per hour—continues to post healthy gains. It rose at a seasonally adjusted 3.3 percent annual rate in the second quarter, keeping pace with the average gain posted in the first six quarters of earlier postwar recoveries.

. . . And Cost Containment

But since labor costs represent two-thirds of business costs, probably the most important contributor to the improvement in the bottom line is the slowing in the rise of unit labor costs. Hourly compensation—which includes wages, salaries and employer contributions to employee benefit plans—increased at a 3.6 percent annual rate in the second quarter, compared with a 6.1 percent gain in the first. Reflecting the slowing of hourly compensation and faster productivity growth, unit labor costs

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rose only 0.3 percent during the second quarter, compared with three percent in the previous quarter.

One of the leaders in the second quarter's earnings gains was the automobile industry. Company profits were boosted by higher average prices as consumers shifted from smaller, more austere cars to larger, option-laden models. Although production fell by a five percent annual rate, following the first quarter's gain of seven percent, it was not due to a decline in demand, since the selling pace remained steady at 8.3 million units. Rather, several plants were closed for retooling and model changeovers earlier in the season than usual. One cloud hanging over the industry's future profitability is the current UAW contract negotiations. Although the union is stressing job security as one of the major bargaining issues, labor will undoubtedly demand big wage increases in an attempt to make up for the givebacks of previous years.

The good news from Detroit has spilled over to the downstream industries. The rubber and plastics industry posted sizable profit gains and is now producing 15 percent more than it did a year ago—well above the 12 percent all-industry rise in industrial production. The motor vehicles and parts industry has boosted its output 21½ percent from a year ago, with the production gain since the end of the recession totaling more than 60 percent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/1/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.470	– 1.502	+ 5.615
Loans to Depository Inst.	7.460	+ .611	+ 6.149
Float	.343	– .234	– 1.253
Total Reserve Bank Credit	175.339	– .966	+11.102
Treasury Deposits with Federal Reserve Banks	4.179	+ .207	+ .155
Currency in Circulation	175.383	– .532	+13.492
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.046	– 1.097	+ 3.172
	8/1/84		
Member Bank Reserves:			
Total Reserves Held	36.187	– 1.089	+ 1.142
Excess (Deficiency)	.651	+ .258	+ .089
Net Borrowed Reserves	.236	+ .097	+ .124
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (7/23/84)	544.9	+ 8.4‡	+ 6.2‡
M2 (June '84)	2,272.3	+ 7.6	+ 7.3
M3 (June '84)	2,838.3	+ 10.6	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/3/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.40%	10.55%	10.65%
* Federal Agencies	11.45	11.75	12.15
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	11.11	12.13
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.60	11.95

‡Finance Company Paper—Prime

5- 14 days	10.00%
15- 29 days	10.00
30- 59 days	10.90
60- 89 days	10.80
90-179 days	10.70
180-239 days	10.50
240-270 days	10.50

‡* Bankers' Acceptances

Sep.	11.05%
Oct.	11.05
Nov.	11.05
Dec.	11.05
Jan.	11.05
Feb.	11.00

‡Industrial Paper—Prime

30- 89 days	11.05%
90-120 days	11.05

†Federal Funds Effective Rate 11.52%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84n	$ 3,646	$ 3,553r	$ 3,267r
Gross National Product (1972 Dollars)*	2nd Q'84n	$ 1,640	$ 1,611r	$ 1,525r
Percent Change, Annual Rate	2nd Q'84n	7.5	10.1r	9.4r
Change in Consumer Prices (new series)*	Jun '84n	2.4%	2.4%	2.4%
Change in Producer Prices*	Jun '84	0.0%	0.0%	4.8%
Civilian Employment (Thousands of Persons) †	Jul '84n	105,395	105,748	101,225
Unemployment as % of Civilian Labor Force†	Jul '84n	7.5%	7.1%	10.0%
Personal Income*	Jun '84	$ 3,005	$ 2,981	$ 2,734
Leading Indicators Composite Index (1967=100)†	Jun '84n	167.4	168.9r	157.3
Industrial Production Index (1967=100) †	Jun '84	163.6	162.8	146.4
Net Change in Consumer Installment Credit †	May '84	$ 10.23	$ 6.41	$ 2.27
U.S. Merchandise Trade Balance †	Jun '84n	–$ 8.91	–$ 8.84	–$ 4.89
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jun '84	1,900	1,805	1,743
New Construction Expenditures*	Jun '84n	$ 310.6	$ 311.3r	$ 264.1
Total Business Inventories †	May '84	$ 545.9	$ 541.1	$ 501.0
Total Business Sales †	May '84	$ 412.3	$ 405.9	$ 360.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

The recovery in the construction markets has boosted sales and profits in many related industries. For example, increased sales of new and existing homes, the huge backlog of pent-up replacement demand as well as the hot and humid weather which hit the East Coast this spring have caused purchases of home appliances to set records in the first half of this year. In particular, shipments of room air conditioners have nearly doubled from year-ago levels while movement of microwave ovens is up 75 percent.

Responding to the pickup in capital spending, the steel industry has staged a comeback, as higher shipment levels, higher prices and stringent emphasis on cost-cutting have helped at least some companies into the black. But the strong spending on construction and industrial machinery is no longer translating into orders for heavier steel the way it did in earlier months of this year. Instead, imports have been boosted; they now claim 24 percent of the U.S. market—an all-time high.

Not all industries have shared in the recovery. For example, most copper companies remain in the red as rising consumption of the metal was more than offset by extremely weak prices. For the past two years the industry has been battered by imports which now represent 25 percent of domestic consumption, up from 16 percent in 1982. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/18/84)	156,223	– 6	+10,008
New York City (7/25/84)	35,288	+ 613	+ 2,705
Commercial Paper (7/25/84)	223,861	+ 1,021	+50,933

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/18/84)	243,726	+ 292	+27,833
New York City (7/25/84)	64,441	– 85	+ 5,783

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/18/84)	614,028	– 304	+89,268
New York City (7/25/84)	139,229	+ 1,538	+20,544

Financial Markets

	Friday 8/3/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.87%	+ .22	+ 1.12
180-Day Bills†	11.35	+ .17	+ 1.15
Longest Bills†	11.75	+ .04	+ 1.10
Recent Issues:			
12⅝s 7/31/86	12.37	– .25	
13⅝s 6/30/88	12.56	– .14	
13⅛s 5/15/94	12.64	– .20	
13¼s 5/15/14	12.54	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (8/2/84)	9.92%	– .27	+ .18
Blue List Total ($ Million)	$1,014	+$ 16	– $177
30-Day Visible Supply ($ Million)	$3,275	+$1,102	+ $232
Total	$4,289	+$1,118	+ $ 55
Corporates:			
Moody's Aa Composite (8/2/84)	13.59%	– .21	+ .75
30-Day Visible Supply ($ Million)	$ 555	–$ 95	– $100
Stocks:			
Dow-Jones Averages:			
Industrials	1,202.08	+ 87.46	+ 18.79
Transportation	525.67	+ 59.07	– 16.76
Utilities	126.49	+ 2.19	– 2.60
65 Stocks	468.51	+ 35.30	– 1.41
Standard and Poor's 500 Stocks	162.35	+ 11.16	+ 0.61
N.Y.S.E. Composite Index	93.23	+ 6.22	– 0.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	139,676	+52,748	+ 59,438

* 46% Taxable equivalent 18.37%.

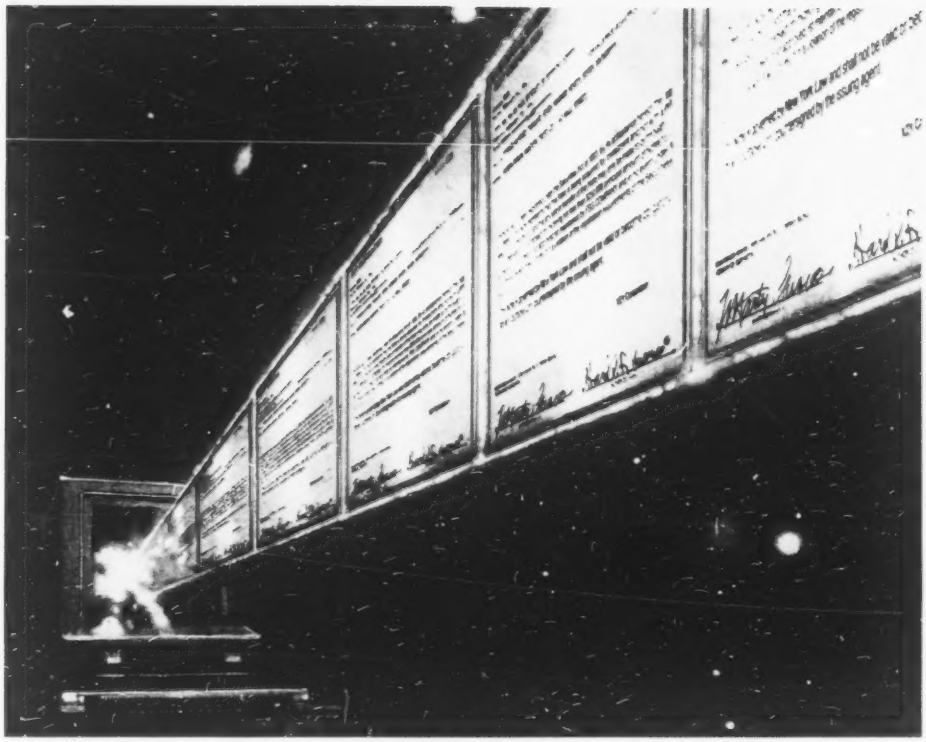
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/3/84	Week Ago
Overnight	11.31%	11.13%
1 month	11.38	11.31
3 month	11.63	11.69
6 month	11.94	12.13
1 year	12.31	12.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.85%	13.15%
Long Term (7 to 15 yrs.)	13.00	13.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/3/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01714	58.35
Canada	.7629	1.3108
Denmark	.09474	10.5550
France	.1130	8.8525
Germany	.3469	2.8830
Italy	.0005644	1,771.80
Japan	.004108	243.40
Mexico	.005128	195.00
Netherlands	.3072	3.2550
Switzerland	.4108	2.4343
U.K.	1.3200	.7576



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